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PLANNING FOR EMPLOYMENT



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PLANNING
FOR
EMPLOYMENT

A PRELIMINARY STUDY

BY

SOME MEMBERS OF PARLIAMENT

LONDON
MACMILLAN & CO. LTD

1935

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PRINTED IN GREAT BRITAIN
BY R. & R. CLARK, LIMITED, EDINBURGH

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INTRODUCTION

Two years ago a group of supporters of the National Government in the House of Commons set themselves to answer a question, which was even then obvious enough, and which has since become more and more pressing. The question in effect was: Is the National Government to be regarded merely as a temporary union of emergency caretakers, and, if not, what general line of policy is it to represent when the emergency has passed? Their general answer to that question corresponds to-day very closely with what seems to be the trend of feeling both in the House of Commons and among the general public. That feeling may, perhaps, roughly be stated as follows.

No government in these days can be regarded as a government of caretakers, for, though certain acute phases of the state of emergency in which we live may be regarded as temporary, the emergency itself is nothing less than a transition from one era to another. Certain factors in the economic, and therefore in the social, life of the world have changed. The change may be variously stated. There are many different estimates of the relative value to be attached to this or that change. But, broadly speaking, a restoration of the economic conditions of the nineteenth century or of the first

decade of the twentieth century is impossible. Governments and different schools of political thought must adjust their policy to new tendencies precisely as a hundred years ago governments and parties had to readjust themselves to the consequences of the industrial revolution. A National Government is the appropriate instrument for a readjustment of this kind.

In one sense, a readjustment of this kind involves "planning", because it involves a deliberate change of view. But, in another sense, a period of transition is a moving battle in which it is essential that the strategist should preserve his freedom of movement and not tie himself irrevocably to one particular line of advance. For instance, the present trend of economic forces may be towards a closer integration of certain basic industries, but there is also an unmistakable trend in certain fields towards great individualisation of effort. It would be a poor exchange if old rigid party doctrines were to be discarded only to give place to some new rigid doctrine of "planning". On the other hand, the strategist, intent on preserving his freedom of movement, must, at any given moment, have a clear idea of his immediate objectives and of the methods by which he proposes, however provisionally, to attain them.

What, then, to-day is our immediate objective? Clearly, employment. Whatever dreams some people may entertain of a world in which the wealth created by a comparatively small number

of workers may be distributed to all members of society in the form of a social dividend, the first need of our fellow-citizens to-day is opportunity to gain their livelihood by the active production of saleable goods and services. In other words, the planning that is required to-day is planning for employment. It is possible to deny the need for such planning; it is also possible to exaggerate its possibilities. One may take the view that, given a sound monetary system and reasonable freedom of trade, the maximum volume of employment will automatically be created. Or one may plunge into an orgy of dictatorial conscription of labour or conscription of employing-power. But one may also take a middle view. One may take the view that, even with the present volume of trade, industry and agriculture are not employing as much labour as they are capable of absorbing. On this view, the absorbent powers of industry are being checked, partly by defective organisation within industry itself, and partly by defects in present government policies relating to industry. In other words employment is being restricted or rendered insecure by excessive competition for limited markets, by haphazard methods of recruitment and training, by taxation, by bad methods of assessing social insurance contributions, and so on. If there is to be any deliberate planning for greater employment, these are the first defects which must be remedied.

The primary business of a parliamentary group

To sum up, this memorandum seeks to do no more than define a general approach to the problem which may commend itself to the most various schools of thought, to the individualist just as much as to the devout believer in "public utility" organisation and compulsory marketing schemes. Those who have co-operated in drawing it up and whose names are printed below, do, in fact, represent a range of opinion as wide as this, and their object has been, not to draw up a programme, still less to issue a manifesto, but to make a contribution to the eventual programme for which the country is certainly waiting.

ANTHONY CROSSLEY	HAROLD MACMILLAN
GEOFFREY ELLIS	T. B. MARTIN
C. W. H. GLOSSOP	HUGH MOLSON
FRANK HEILGERS	CHARLES PEAT
HAMILTON KERR	EUSTACE PERCY
KENNETH LINDSAY	RONALD TREE
NOEL LINDSAY	HARVIE WATT

I

AN INDUSTRIAL POLICY

1. THE statesmanship of the world is struggling with an infinite diversity of problems, but there is one fundamental problem which governs and controls all others. It is the problem of "poverty in the midst of plenty". The natural fertility of the earth and the applied ingenuity of science seem to have opened to mankind a new and alluring prospect: easy satisfaction of all its material needs and unlimited opportunity to improve its standard of living. Yet, in sharp contrast with this prospect, millions of the world's inhabitants still live on the border-line of want and in conditions which are a disgrace to civilisation.

2. This is not a "political" problem in the sense that it can be solved purely by programmes of legislation, and still less by mere changes in the structure of government, on the lines of European experiments. It is primarily an economic problem, to be solved by applying the principles of business management and scientific invention. Nor is it a political problem in the party sense, calling for the application of Conservative, Liberal or Socialist doctrines handed down by our fathers and grand-

fathers. It is a new problem, to which traditional political philosophies are largely irrelevant. But, in the deeper sense, it is emphatically a political problem. The social life of a nation depends upon the manner in which goods are produced and distributed, upon the manner in which public services such as transport and housing are provided. It is economic organisation that determines, not only the degree of comfort which the citizen can enjoy as a consumer, but also his opportunities for satisfying and useful activity as a producer or a servant of the community. Statesmanship cannot disclaim responsibility for the proper working of the machinery on which the happiness of the majority of citizens so largely depends.

3. In other words, the problem has two aspects, the economic and the social. It is economic in its origin and social in its consequences. Its social aspect is the one with which political statesmanship is most directly concerned. Governments are concerned with economic organisation only as a means to social ends. Nevertheless, a consideration of government social policy must start from the economic origins of social life. It is here that original thinking is most required; and it is here that such thinking is least hampered by old political party labels. But, in considering this economic side of the problem, the statesman needs constantly to be reminded that his economic policy must ultimately be judged, not by the efficiency

or tidiness of its arrangements for the production and distribution of wealth, but by its social effects in increasing the happiness of the people. For that reason, his policy, even on its purely economic side, will necessarily be influenced by his conception of the kind of society which will best secure the happiness of mankind. To that extent, his policy will no doubt raise issues of principle—such as the balance between freedom and authority. But, in this country at any rate, such fundamental issues cut across ordinary party divisions, and on them, as on the purely practical problems of economic organisation, we are justified in making at this time a national appeal for unity of thought and action. For in this country we have a national philosophy of life which largely determines our attitude towards these issues, irrespective of our party affiliations.

4. There are, indeed, comfortable counsellors who assure us that the need for action is not imperative. They believe that the paradox of poverty in the midst of plenty will solve itself, that our difficulties are only temporary, that we have but to tighten our belts for a while and all will be well. According to them, the embarrassments of the world will disappear as they have disappeared after previous lesser “depressions”; the mere automatic “operation of economic laws” will once again bring into equilibrium the power of production and the power of consumption. It is necessary

at the outset to state why, in our judgment, this hope is a delusion.

5. The conditions which enabled this country in the nineteenth century to make a success of the policy of *laissez faire* and unrestricted competition no longer exist. For its complete success that policy requires that the producer shall be governed exclusively by economic motives. If production is to be regulated by the price factor, the producer must be as free as his competitors to win a market by lowering his prices. But in this country government has, long since, deliberately deprived the producer of this freedom. It has hedged him about with a thousand restrictions, designed to protect the wages, hours and conditions of labour of his employees. Some of these restrictions have been directly imposed by statute, others have grown gradually out of a long process of "collective bargaining" between the partners in industry, sanctioned by custom, by public opinion and by the influence of successive governments. But, whatever their origin, these restrictions are so many flaws in the technical perfection of the *laissez faire* system, so many checks to its power of automatic self-adjustment. These checks having been imposed, the next step seemed inevitable, and, in our judgment, was inevitable. Once freedom of competition was limited with the object of preserving to those employed in productive industry in this country a standard of living higher

than that enjoyed by those engaged in similar work elsewhere, the conclusion became irresistible that the producer, thus handicapped in the struggle for foreign markets, must be correspondingly protected in home markets. It is plain that a country so deeply committed to interference with free competition cannot rely on free competition to deliver it out of its distresses.

6. Nor has this country any longer the choice of continuing or reversing this policy of interference. Within the last few years, almost all countries have abandoned any pretence of adherence to the principle of unlimited free competition. One by one, they have adopted varying degrees of State interference—direct State control of manufacture and agriculture, tariffs, quotas, exchange restrictions, subsidies and so forth. These policies have, no doubt, been to some extent influenced by nationalist ambitions; but, in the main, they must be regarded as reasonable, though often mistaken, attempts by the nations to maintain or improve their standards of social life under the abnormal conditions which followed the Great War. A detailed analysis of those conditions would be out of place here, but their general character is obvious. The war created an extraordinary but temporary demand for foodstuffs and for certain classes of manufactured goods. That demand stimulated a corresponding expansion of productive power and of employment in certain indus-

tries. These abnormal transactions were made the basis for vast additions to international indebtedness, for a new organisation of production and employment, and for higher standards of living. The State policies of the last fifteen years have been, broadly speaking, a desperate effort to save these ambitious extensions of the structure of international credit and national conditions of life from complete collapse when the abnormal demand which had been their only foundation was withdrawn. It is useless to-day to speculate about what might have happened if the nations had, from the outset, accepted the inevitability of collapse and had relied on the free initiative of their peoples to reconstruct the old economic system of the nineteenth century. It is too late to attempt such a solution now, for now collapse would spell revolution—a revolution which would seek to replace the present economic disorder, not by a reconstructed system of free trade, but by some form of State ownership of “the means of production, distribution and exchange”.

7. The solution of State ownership, or, at the least, of comprehensive State control, is, of course, urged by many who are not revolutionaries but who see in it the only possible means of raising standards of living and securing a proper balance between government and industry. Our purpose in these pages is constructive rather than critical and it would therefore be inappropriate to embark

on an examination of the fallacies of Socialism. It is perhaps sufficient to say that the industrial policy of the Socialist party is based upon certain general economic theories, propounded in the nineteenth century, rather than upon any practical study of the economic problems of to-day. Moreover, its social programme, as now preached to the electors, has no logical connection with its industrial policy; and is, indeed, in flat contradiction to it. The elaborate, but vague, Utopia, which it depicts as the goal of that programme, is not to be attained through its industrial policy, but through a quite independent series of "social reforms", financed, not out of the profits of State-conducted industries, but out of some pool of wealth which it assumes can still be tapped by taxation—presumably the non-existent incomes of the expropriated private capitalists.

8. There is, finally, a third school of thought, in direct contrast to the advocates of a return to unrestricted competition, but resting upon an equal, though opposite, misreading of the facts. This school believes that the road of salvation for this country lies in more complete isolation, in the adoption of an ever more rigid system of protection, and in a deliberate effort to live on its own hump. This, too, is a counsel of despair; for, if European countries have found to their cost, in the last two or three years, that such a policy cannot prevent a dangerous reduction in their

standards of living and an even more dangerous increase in unemployment, especially among youth, the consequences for this country, dependent as it has always been upon foreign trade, could not fail to be disastrous.

9. But, if we reject all these counsellors, it is all the more our duty to formulate an alternative policy. Action is essential and urgent. True, we are probably in the strongest position of any country in the world. Since 1931 we have made the greatest strides towards recovery. Our system of social insurance against poverty, unemployment and ill-health is the most complete. But that is not enough. We still have, at any given date, some two millions of unemployed, of whom 70 per cent., it is true, have been out of work for less than three months, but 20 per cent. for more than twelve months.¹ We have large urban populations living under conditions which leave much to be desired. The social services are still improving, year by year; but the burden of taxation is almost as heavy as ever, and recent figures have shown that the yield of some of our heaviest and most productive taxes is declining. Our expenditure on public assistance in all its forms is, in fact, the premium which our industrial system is forced to pay in order to insure itself against social collapse; and the premium is becoming so large as to threaten to engulf the whole income of many of our most

¹ January 1935.

important industries. The time has clearly come for the formulation of a coherent long-term policy which, while preserving all those features in our national life which we value, will, at the same time, restore individual independence and security to large numbers of our fellow-citizens and will render possible a general improvement in the standard of living.

10. Such a policy must, at the outset, be an industrial policy. Industry is the agency by which these benefits can be conferred. That is the function of industry. We are too prone to speak of "raising the standard of living" as an object of "social reform", distinct from general economic policy and applicable only to those who are at present below the "poverty line". That is an all too narrow view. A real social policy must begin by restoring industry as a whole to health. That means that it must begin by establishing the closest possible co-operation between government and industry, first in the formulation of policy, and then in its execution. Proposals which are not freely accepted by industry itself must cause friction in their operation and can have little chance of success. The best policy is one which attains its ends with the minimum of government interference, which recognises the freedom and emphasises the responsibility of industry itself. Government is not equipped either to enter the industrial field itself, or to intervene

in the management of a large number of widely differing industrial concerns. The function of the law, in relation to corporate industry as in relation to the individual, is not to restrict the citizen's freedom or to expropriate his property, but to enable him to use his freedom and his property effectively for the public good.

11. The immediate objective of industrial policy must be to bridge the existing gap between possible production and effective consumption. There are clearly two ends from which that objective can be approached—the production end and the consumption end. To increase consumption and stimulate demand, by adding to the purchasing power of the consumer, is the more difficult task. We shall consider it later. The problem of production must be dealt with first, but it must not be forgotten that in presenting our proposals under this head we shall be presenting only half the picture. Our proposals cannot be seen in their true perspective unless they are taken in conjunction with our later proposals for increasing consumption.

12. Dealing, then, with the problem from the production end, we submit that the solution lies in the economic planning of production. "Planning" has become a catchword, almost a joke; but it means merely (to quote a recent definition) "the attempt to regulate production in accord-

ance with effective demand". Once realise this, and many of the prejudices and misgivings which have gathered round the phrase automatically disappear. It is not a question of academic expedients evolved by airy theoreticians or fussy politicians. It is a question whether the simple rules by which the individual business man conducts his own affairs can be applied to the whole field of the nation's industrial life. He first forms an accurate estimate of the extent of the demand for his products and he then produces up to the limit of that demand; can the nation as a whole do the same?

13. The experience of all countries during recent years has shown that a national estimate of demand and a national programme of production do not emerge naturally and inevitably from the sum of the estimates and programmes of individual business men. The reason is obvious. The individuals are competing for a limited market, and their estimates and programmes overlap each other. Where this competition and overlapping are at their worst, as in agriculture, a number of experiments have been recently made in the national regulation of production on the basis of national estimates and programmes. In other fields of production, schemes of "rationalisation" within certain industries have aimed at the same result. These experiments, while they have shown the difficulties of formulating national pro-

grammes, have also shown the possibilities of success. The difficulties have largely been the result of the piecemeal nature of the experiments. The scale of national production has not been considered as a whole. The attempt to graft a few *ad hoc* organisations on to an industrial and economic system still largely dominated by the *laissez faire* conceptions of the nineteenth century has naturally resulted in delays and dislocations.

14. Government has already made a deliberate attempt to correct this mistake, but only in one field: the field of imports from abroad. The Import Duties Advisory Committee and the import regulations of Government represent a real effort to give to efficient industries a planned protection in the home market. But protection of this kind is not enough. Chaotic market conditions are not the result only of uncontrolled imports. There may be internal as well as external dumping. Moreover, protection from foreign competition has been afforded to certain basic industries on which all other industries depend, either for their raw or semi-manufactured material, or for fuel or for the carriage of goods, or for the essential living conditions of their workers. Government cannot disclaim responsibility for the efficient organisation of these industries, to which it has granted a special measure of protection against foreign competition, or which are, by their nature, sheltered from such competition. Government has

already recognised to some extent its responsibility for the reorganisation of agriculture and transport, and should now devote similar attention to textiles, iron and steel, coal and house-building. Government's responsibility is not, of course, confined to these basic industries; it covers all industries. But the basic industries present certain peculiar features, requiring a special mode of procedure. They form the obvious starting-point of any large policy of reconstruction.

15. Let it be repeated that the reorganisation of an industry is primarily a matter for those engaged in that industry. But at present the progress of an industry may sometimes be impeded by a small minority who are not prepared to take the necessary steps to put their house in order; in other cases the necessary incentive to reorganisation may be lacking. This is the immediate problem with which we have to deal. It is the duty of the Government to deal with these cases and to give to an industry which is genuinely desirous of reforming itself the power, subject to proper safeguards, of overcoming the resistance of a minority, and, in other cases, to provide the necessary incentive towards reorganisation.

II

THE FIRST STAGE: AN ENABLING BILL

16. IF the immediate object of industrial policy is thus to form a national estimate of demand and to formulate a national programme of production, the first stage in such a policy is clear. Industries must be enabled to organise themselves for this purpose. Parliament must pass a simple Act defining a procedure by which statutory force may be given to any sound scheme of organisation supported by the majority of those engaged in a particular industry. The Act must give proper protection to the minority in the industry, to the wage-earners and salary-earners employed in it, and to the consumers of its products. The Act must also enable the Government to take the initiative in formulating a scheme for any industry which needs one, but is unable, for any reason, to take the initiative itself.

17. It is not the task of Government to impose a rigid and uniform structure on all industries. Each scheme will naturally vary according to the circumstances of the particular industry. The procedure laid down by the Industrial Enabling Act must be sufficiently flexible to allow to each in-

dustry the utmost latitude in evolving a scheme suitable to its own needs. Each scheme must be approved by the Government and by Parliament, who should be assisted in examining schemes submitted for approval by a National Advisory Committee qualified to bring a business judgment to bear upon them.

18. The main principles which we believe should be embodied in such an Act are the following:

- i. The persons best suited to devise schemes for the organisation of an industry are clearly those who are actually engaged in it. Therefore schemes should, whenever possible, originate from the industry itself.
- ii. Public interests must be protected, and care must be taken that a scheme of organisation does not merely cloak the creation of a "ring" or monopoly at the expense of the consumer. Some process of investigation is therefore necessary, analogous to that under the Safeguarding of Industries Act. This investigation can more properly be conducted by an industrial than by a political body, and there should therefore be set up an Industrial Advisory Committee, consisting of persons with practical industrial experience, and charged with the duty of examining schemes.
- iii. The Committee should consider the sub-

mitted scheme and make a Report thereon to the President of the Board of Trade, who would be responsible to Parliament for the administration of the Act. This report, when presented, would be laid before Parliament. The Act should lay down the broad principles to which the Committee should have regard, such as the efficiency of the scheme itself and its effect on consumers and wage-earners, and upon other industries. There should be adequate provision for the making of representations to the Committee by persons interested in the scheme, and the Committee should have power to suggest amendments.

- iv. It must be made clear that schemes need not necessarily embrace the whole of a particular industry, but that, where a section of an industry can suitably be dealt with by an independent scheme, this procedure should be encouraged.
- v. The Committee must particularly direct their attention to the danger of arresting the development of an industry by too rigid a scheme, and it must be part of their duty to ensure that all schemes contain adequate provisions for the future development of the industry, especially as regards the admission of new undertakings, the improvement of technical processes and the better marketing of the product.

- vi. When a scheme has been approved by the Committee it must then be submitted to a vote of the industry. No general principles can be laid down as to the exact method by which the vote should be taken. This will vary in each particular industry, and it must be a further duty of the Committee to recommend in each case a suitable procedure for this purpose. It should be laid down as a general principle that a bare majority of producers is not sufficient, and that a scheme is not to be considered as having been approved by the industry unless it is supported by a majority of at least three-fourths.
- vii. When a scheme has been approved by the Committee and accepted by the industry, it should be the duty of the President of the Board of Trade to recommend its confirmation or rejection by Parliament. A scheme confirmed by resolution of both Houses of Parliament should have the force of law.
- viii. No power need be taken to impose schemes in default of agreement by the industry. If Parliament is convinced that there is a case for reorganisation which is not being met by the industry, it can always take action by *ad hoc* legislation.
- ix. It might, however, be desirable to include in the Act provisions enabling the Minister,

on the advice of the Industrial Advisory Committee, to call on an industry to produce a scheme, where it was felt by the Committee that the public interest demanded such a step, but that the industry itself was not likely to take the initiative.

- x. The final stage might be to give the Committee power, where an industry had thus been required to formulate a scheme and no response was forthcoming within a reasonable time, to formulate its own scheme, so far as possible in consultation with the industry. But, in every case, the scheme, however originated, must be submitted to the vote of the industry. If a scheme is rejected by the industry, Parliament must be left to pass, in the ordinary way, whatever legislation it may deem necessary in the particular case.
 - xi. The Act must also provide for the making from time to time of whatever amendments may be necessary in any statutory scheme.
19. In Appendix I. will be found a Draft Bill shewing the manner in which these principles might be given statutory form. This method of presentation has the advantage of presenting ideas in a concrete form, but it also has the disadvantage of presenting them in a form which may

appear too rigid. It should be made clear that, while vital importance is attached to the underlying principles, the details are only to be regarded as a basis for discussion, and are presented in this form only as being the method most likely to lead to rapid general agreement.

20. Considerable emphasis has been laid on the Industrial Advisory Committee. This is the keystone of the structure. The intention is to preserve the right balance between Minister, Parliament and industry, and to achieve the necessary measure of Parliamentary responsibility without opening the door to unjustifiable Government interference. The personnel of the Committee will obviously be of the utmost importance, and serious consideration must be given to the method of appointment. The Committee cannot be constituted by any form of election; it cannot be made directly representative of the industries of the country; but it must possess the confidence of industry. It will probably be sufficient, at any rate at the outset, to provide for the appointment of the Committee "after consultation" with the various interests concerned. Later experience will shew the lines along which the Committee may be developed.

21. The phrase "public interest" is of course extremely wide. An effort has been made to define

more clearly in paragraph 4 of the draft Bill the considerations which should weigh with the Minister and the Committee. If more rigid safeguards were felt to be necessary, they might be put into the form of conditions, the fulfilment of which would be necessary to the validity of a statutory scheme; but such a course, while it might appeal to cautious minds, would have the obvious disadvantage of opening the door to litigation.

22. Similarly, the exact definition of "an industry" presents great difficulty. It would no doubt be possible to put on paper something in the nature of a working definition and to set up four walls within which an industry must bring itself before availing itself of the Act. The Bill is drafted on the assumption that it is better to establish a procedure wide enough to facilitate any desirable scheme, from the comprehensive reconstruction of the shipbuilding industry to the better regulation of the production or marketing of earthenware pipes.

23. The draft Bill thus contemplates three different types of scheme:

- a. Those produced by the industry on their own initiative.
- b. Those produced by the industry at the request of the Minister.

- c. Those prepared under the authority of the Committee after the industry has failed to produce a scheme.

In every case a necessary stage in the procedure is the submission of the scheme to the vote of the industry. If such a vote shews a clear majority of 75 per cent. in its favour no difficulty arises. Is it necessary or desirable to take any further powers in this Bill to deal with schemes not accepted by the requisite majority? Paragraph 12 provides that where an "a" class scheme is not accepted the Minister shall make a report to Parliament. If Parliament then believes that further action is necessary it can always proceed by *ad hoc* legislation. The alternative procedure would be that a scheme not accepted by an industry should nevertheless be presented to Parliament for confirmation or rejection, but this alternative obviously runs the risk of arousing in industry a feeling of apprehension which would be fatal to the smooth working of the Act. It would reduce the vote of the industry from a constitutional process of industrial self-government to a straw ballot for the guidance of Parliament. It could, therefore, be applied, in any case, only where (i) the Committee had advised that a scheme was necessary, (ii) the scheme had been prepared either by a body representing the industry itself or by the Committee, and (iii) the scheme had been expressly

approved by the Committee. It is probably better not to include any such provision in the Bill, but to leave the solution of a deadlock to the force of publicity and to the existing legislative powers of Parliament.

24. One further set of safeguards is necessary. It is obvious that reorganisation schemes will affect not only the owners of an industry, but also those who are employed in it. The whole essence of the machinery here outlined is that it is permissive and not compulsory and that the co-operation of labour is in every respect equally important with the co-operation of industry. The Draft Bill lays down in Clause 5 (e) that the Industrial Advisory Committee shall pay special attention to the question whether the draft scheme provides adequate machinery for the consultation of those employed in the industry on all questions relating to wages, hours and conditions of labour, and on other questions relating to the industry in general. It is probably not desirable to lay down any more specific condition than this in the Act, for reasons which we discuss later in paragraphs 59-62. It is sufficient here to say that the Industrial Advisory Committee would be expected when considering a scheme for an industry to give great weight to the views expressed by organised labour in that industry.

25. An Enabling Act of this kind is the essential

first stage in an industrial policy, but it is no more than a first stage. Parallel with the machinery of the Act, the Government should be pursuing a deliberate policy of encouraging reorganisation in all industries, basic or secondary. Many secondary industries will probably produce schemes under the Act, but there may be industries to which the procedure under the Act is less suitable, or even wholly inappropriate, and whose difficulties may best be met by Marketing Boards or Research Associations, with or without financial assistance from the State. In this field of reconstruction, statutory action is inappropriate, and the Government should endeavour to secure by consent the establishment of such machinery as may be necessary to achieve the desired purposes. A fuller examination of the problems of marketing and research will be found later.

26. If such a policy is wisely pursued, and if industry co-operates in the working out of its own salvation, a new position will arise within a comparatively short time of the passing of the Act. The closer integration of industries for common purposes, the creation of representative bodies speaking for each industry and the elimination of redundant units of production or marketing will enable Government for the first time in our industrial history to form upon adequate and accurate information a reliable opinion as to the employing capacity of industry in general over a

reasonably long period of years in the future. With such information at its command, the Government can then decide what is the approximate volume of surplus labour in any given industry and in the industrial field as a whole, and on that information can proceed to carry out the further stages of its policy.

III

INDUSTRIAL RECONSTRUCTION

27. WHAT are those further stages? The passage into law of the proposed Enabling Act will greatly facilitate the preparation of a coherent policy of employment. It will give to individual industries the opportunity of solving their particular problems and of implementing those solutions by concerted action. But Government must do much more than merely pass an Enabling Bill. The adjustment of production to demand and the creation of a steady and sufficient volume of employment involve a wider consideration of economic policy than can properly be undertaken by any individual industry or even by a number of organised industries in concert. The field is so large that central action is essential. It is not possible within our present scope to elaborate the details of an economic policy, but the following paragraphs indicate the main lines along which we consider action should be taken.

28. The first matter which will fall to be considered is the proper balance to be observed between the internal and external trade of the country and between exports and imports. At

present the balance of trade is consciously controlled only through the operation of the Import Duties Advisory Committee, which is theoretically independent of Government control and cannot be used as an instrument of policy in this sense. So far as the public knows, there has been no comprehensive survey by Government of the whole field of our trade with a view to the striking of any deliberate balance between exports and imports. The Census of Production marks the realisation by Government of the need for such a survey, but it is, at best, a record of past facts rather than an estimate of future capacities. In the present state of our industrial and economic organisation, such an estimate is, of course, almost an impossibility; the sources of information do not exist. The very urgency of such an estimate is one of the most cogent reasons which compel the rapid adoption of the policy outlined here. No economic policy can be successful unless it is based on accurate and completely up-to-date information. The co-ordination of individual industries will render it possible for the first time to obtain such information both as to the productive capacity of industry as a whole and as to the extent to which output is or can be absorbed by actual or potential markets. The existing sporadic efforts, so gallantly made by various individuals and bodies, in the field of market research can then for the first time be properly harmonised.

29. The first stage should clearly be a comprehensive survey of agriculture and industry. A great deal of unco-ordinated work has already been done in this direction and it would be the duty of a Government of Reconstruction to gather together the various threads—the surveys undertaken by academic authorities, the reports of the special commissioners for the distressed areas and the work of the Ministry of Agriculture—and, with the whole of the information before them, to work out the details of their economic policy.

30. The proper starting-point is the oldest and greatest of our industries, agriculture; and here the vigorous work which has already been done greatly simplifies the task. For many generations agriculture has been a declining industry. The supposed attractions of urban life, the higher wages and better standards of living available in the towns and the increasing mechanisation of agricultural production have combined with purely economic factors to transfer large numbers of the rural population to the towns. Out of every 10,000 persons occupied there were 1250 occupied in agriculture in 1881 as against 675 in 1921. The figure based on the census of 1931 will probably shew a further decline. The total number of persons engaged in agriculture in Great Britain was 1,593,000 out of an adult population of 22 millions in 1881, 1,307,000 out of an adult population of

nearly 35 millions in 1921, and 1,352,967 out of an adult population of about 36 millions in 1931. Owing to various changes in the method of enumeration these figures are not strictly comparable, but they do serve to illustrate the general trend of the agricultural industry during the last fifty years. A determined effort is now being made to reverse this distressing decline. It is generally recognised that from every point of view—economic, political and, above all, social—it is desirable to maintain as large a proportion of the population as possible on the land. Government has already introduced many measures designed to increase the volume of agricultural production and agricultural employment in this country, which are meeting with a considerable success. The objects intended to be achieved are admittedly desirable, but it is obvious that agricultural policy cannot be considered by itself, apart from its possible effects on the industrial position as a whole. If there is any considerable increase in agricultural production in this country, it must (except to the extent to which a rising standard of living can absorb an increased volume of production) either find its outlet in increased exports or be counterbalanced by a fall in imports. It is no doubt possible to increase exports to a very considerable extent by the expansion of the English canning industry; research for this purpose has already been undertaken both by the Ministry of Agriculture and by private concerns, and this possi-

bility would no doubt form one of the first subjects of enquiry in the suggested survey. But the possibilities of largely increased agricultural exports from this country are very strictly limited, and any substantial increases in production must be absorbed by the home market. In some respects, particularly meat, milk, fruit and vegetables, a positive increase in consumption may be aimed at by the sort of dietetic propaganda with which we are already familiar; but a large improvement can only be brought about by a general increase in consuming power, and in this connection reference must again be made to the proposals which follow for "the improvement of the condition of the people". But, even when allowance has been made for all these factors, it is obvious that a *large* increase in agricultural production must (apart from some increase in the imports of feeding-stuffs) entail a corresponding reduction in agricultural imports, and so involve a relative diminution in the total volume of external world trade. In all probability these repercussions would to some extent be felt in our own export trade, and the benefits to the rural community would be offset by the damage to the urban worker. The dilemma is a real one, but if adequate information is made available it is capable of solution. It is not to be supposed either that agriculture in this country is capable of indefinite expansion or that the point of saturation has yet been reached. There is still room for expansion up to a point, and it will be

part of the objects of the proposed survey to discover what that point is. The lines along which the enquiry should proceed have already been indicated in this paragraph, but may conveniently be summarised as follows:

- a. What possibility is there of increasing our exports of agricultural produce?
- b. How far can we increase the consumption of agricultural produce either by judicious propaganda or by a general increase in the consuming power of the population?
- c. What is the point at which the benefits of increased agricultural production are counter-balanced by the disadvantages of diminished industrial production?

31. Not until the answers to these questions are known can we have any clear idea of the proper relation between agriculture and industry, and between exports and imports. We have lived for so long on our export trade that we have grown to regard foreign trade as being something desirable in itself. This, of course, is only partially true—it is not necessarily more profitable to sell to China or Peru than it is to sell to Northumberland or Somerset. But for us in these islands, “autarchy” is an impossible policy. As we have already indicated there will always be a certain proportion of our needs which we are bound to satisfy by

purchases from abroad. But have we any control over the size of that proportion; and if so, what should our objective be, bearing in mind all the time that we are considering a world in which the volume of international trade has rapidly diminished since 1930 and shows no signs of returning to its old rate of expansion? The problem must be approached from the point of view of the standard of living of the people. International trade is desirable only so far as it enables us to provide our population with a constantly improving standard of living. The problem, regarded from this angle, again becomes one of balance. A state of insular self-sufficiency, if it were attainable, would involve a stationary, and even a declining, standard of living; it would mean complete dependence upon the comparative accidents of the growth or shrinkage of our population. A too great dependence on overseas trade, on the other hand, means that our internal standard of living is exposed to risks over which we have no control. It has often been pointed out that competition between countries in different stages of economic and social development tends to pull the advanced countries down to the level of their competitors. The objective to be aimed at therefore in our overseas trade is not so much volume as *stability*—that is, stability of balance, not fixity of volume. The higher the level at which that stability can be obtained, the better, since a high level gives us a better opportunity of expanding the standard of

living; but stability is the first requisite. How is that stability to be attained?

32. The stages of the industrial policy which have already been outlined will of themselves go a long way towards achieving such stability. The modernisation and concerted mobilisation of our industries will result in greater efficiency and greater economy in production. At the selling end, our competitive power in foreign markets will be greatly increased; at the buying end, the unification of industries will tend, by a natural and unobjectionable process, towards the bulk purchase of raw materials. It may be possible to devise suitable machinery for the bulk purchase of agricultural products. The magnitude and importance of the orders which will be placed by these purchasing organisations will give us a powerful lever to secure markets for our exports. Indeed it is not inconceivable that a wholly new conception of the technique of foreign trade may be developed as time goes on. Already we have been experimenting with this new technique in the bilateral trade agreements which we have recently negotiated. In this connection greater regard must be paid to the possibilities of the Empire as a partner in the trade policy of this country. The possibilities of an Imperial economic policy have already been amply canvassed in other places, and, subject to two important qualifications which will be mentioned, some such line of

policy affords one of the greatest hopes of the revival of industry in this country, and of an expanding standard of life not only in Great Britain itself, but throughout the Empire. The qualifications are, first, that the objective of an Imperial economic policy must not be a narrow self-sufficiency, even within the broader limits of the Empire; and secondly, that the policy must not exclude countries which are willing to co-operate with us, and with whom we have particularly close commercial and industrial relations, even although they may not owe allegiance to the political sovereignty of the British Crown.

33. So far we have been considering economic policy largely from the point of view of productive industry. But the problems of distribution present an equally wide field for constructive re-planning. The capacity to produce is to-day larger than ever, while men, machines and capital are all idle through the lack of adequate purchasing power. The possibility of a large increase in consuming power undoubtedly exists: our own internal standard of living is still capable of considerable expansion, while vast potential markets in Africa, Asia and South America remain practically untouched. The machinery of distribution has broken down; fortunately the breakdown is not organic and can be remedied at the cost of some careful and constructive forethought. It appears to us that there are two lines along

which a solution to the pressing problems of distribution must be sought: the first is the closer relation of production and marketing, and the second is the greater simplification of retail trade. The function of merchanting is, of course, an integral part of the machinery of trade. The merchant is the link between the producer and the retailer, who is the immediate servant of the consumer. The importance of the merchant in the economic life of this country to-day is, like so many other features, a legacy of the nineteenth century. The merchant reached his position of power at a time when trade was carried on between a large number of small producers and an even larger number of small distributors. In such conditions the existence of the independent merchant was a necessary link in the chain. But to-day the conditions are very different. The units both of production and retail distribution are growing larger, while in urban areas the scale of consumption of some standardised commodities has become so great that retail distribution has become almost a wholesale process. Thus we have even the moderate-sized producer acting increasingly as his own merchant; we have the co-operative societies, chain stores and multiple shops combining the functions of wholesale buying and retailing; and we have the great dairy undertakings acting as producer, merchant, processor and retailer in one. While the squeezing out of individual merchants, each operating on a com-

paratively small scale, may be less disastrous in its consequences to the community than the closing down of a large factory, it is serious enough both in its aggregate effect on employment and in its tendency to substitute mass sales of standardised goods for that selective process of discrimination in favour of quality which is the mark of a high standard of taste and comfort. Merchanting is a necessary function; distribution cannot be carried out by the advertising agent alone. How, under the altered economic conditions, is the function of merchanting to be performed?

34. A consideration of what has happened in agriculture is of great assistance in answering this question. Until quite recently agriculture presented a very fair picture of the chaotic conditions which exist in an industry where a large number of unrelated small producers seek to serve the needs of an even larger number of unrelated small consumers. In many branches of home agriculture the merchant has never played a dominating part; the conditions have been so chaotic that it has hardly been worth his while to enter such a hazardous market. He has confined himself largely to dealing in imported agricultural produce; in the home market his place has been taken, to a limited extent, by the agricultural auctioneer. Recently, however, a new technique has been developed in the Marketing Scheme and the Marketing Board. The individual schemes

naturally vary in their treatment of different products, but the underlying principle is the same in all. That principle is that merchanting is a distinct process requiring expert qualities which the producer cannot be expected to possess, but that it is also a process which must be conducted in the closest association with the producer throughout its whole course. Where, as in the Milk Scheme, the distributor has not yet been brought into organic relationship with the producer, and where organised marketing has been practically confined to the creation of a producers' pool, the new technique has achieved only a partial success.

35. The experience of agricultural marketing cannot, of course, be strictly applied to manufacturing industry. As the products of industry are more diverse, so an even greater diversity of expedients will be required. Nor has the experiment of the Marketing Board yet established its efficiency in the sphere of foreign sales. In that sphere we have already indicated the general lines of a future policy. But the real significance of the experiments in agricultural marketing is that they point the way to more coherent organisation in those industries where, as in agriculture, a high degree of integration in production may be neither possible nor desirable—industries, in particular, into whose products the elements of taste and artistic skill enter largely. Marketing must play a large part in the schemes of reconstruction

of more standardised industries; but in these "lighter" industries, the processes of marketing and research may well be the only sphere in which co-operative action is necessary or possible at least at first. But in this sphere co-operative action is almost everywhere urgently necessary. Where the industry itself is incapable of providing the necessary finance for the establishment of marketing or research associations, the Government might well provide initial financial assistance, as in the case of the Research Associations already established.

36. But, as with production, so with merchanting, the most valuable proposals will come from those who are themselves engaged in the business, and it cannot be too often emphasised that the responsibility for formulating proposals to that end rests primarily on those who are at present engaged in merchanting or marketing, and on the industries which at present rely for distribution on the independent merchant.

37. Retail distribution is the least highly organised of all trade processes. The co-operative societies, the great chain stores and multiple shops, exist side by side with a vast number of "small shopkeepers" and minor family businesses. The economic waste involved in the present lack of system must be very great, and adequate super-

vision of conditions of labour is admittedly extremely difficult. Formidable as may be the obstacles to any coherent organisation of retail trade, it cannot be omitted from a complete programme of reconstruction. The economic importance of retail trade may be gauged by the fact that the occupational figures of the 1931 census shew that the total number of persons employed in "Commercial Occupations" (including Proprietors and Managers of Wholesale and Retail Businesses, Commercial Travellers, Salesmen and Shop Assistants in Wholesale and Retail Businesses, Roundsmen and Van Salesmen, Costermongers and Hawkers) was 2,176,494, of whom 994,643 were classified as Salesmen and Shop Assistants. (The detailed figures will be found at page 11 of the *21st Abstract of Labour Statistics of the United Kingdom*. June 1934. Cmd. 4625 of 1934). The necessary data for a solution of this problem do not, however, exist. The first step towards the formulation of policy must be an authoritative survey of this department of our national life. Such a survey is all the more necessary because a mere calculation of "economic waste" in terms of pounds, shillings and pence would be a highly misleading guide to a solution. Nothing must be done which would in any way limit the free choice of goods by the consumer. Means must be found of avoiding the obvious danger of standardising individual taste and imposing a general level of uniformity.

38. The next essential element in any programme of reconstruction must be a consideration of the transport system, including shipping and shipbuilding. The shipbuilding and repairing industry will probably find that the machinery of the Industrial Enabling Act is sufficiently elastic to cover any scheme which they may put forward; but the owners and operators of ships may well find themselves obliged to formulate proposals which could not be brought within the four walls of that Act. Those proposals may well raise the difficult question of subsidies. Indeed, that question has already been raised by the loans to the Cunard Steamship Company and by the proposal for the subsidy of £2,000,000 for vessels carrying tramp cargoes. We cannot discuss this issue fully here, but we may lay down the general principle that any Government subsidy to any industry should be directed to a specific object, attainable within a relatively brief space of time. Subsidies renewable for period after period, like the beet-sugar subsidy, are inherently vicious. The object of any subsidy to the shipping industry should be the elimination, both nationally and internationally, of the wasteful competition resulting from the present redundancy of ships in relation to the volume of sea-borne trade. Subsidies may be an incidental aid to such a policy, but they can only be incidental; and in the absence of such a policy they must be bad.

39. Other forms of transport are perhaps in a

somewhat happier position than shipping. The main-line railways are still operating under the Act of 1921, and the recent Salter Conference on Road and Rail Transport, with limited terms of reference, made no recommendations for any alteration in that Act. They did, however, say in paragraph 131 of their Report (No. 55-179 of 1932): "There is room for a scientific enquiry in the light of the experience of other countries and the special conditions of traffic in this country, as to the most economic form of transport for each class of goods . . . *e.g.* up to what distance in each case road transport is the more economical and beyond what point railway transport becomes so; the best use and development of standardised containers and transhipment under different conditions, etc.; such an enquiry being, of course, ancillary to the practical experience of those engaged in the transport industry itself. Such collaboration, replacing over large spheres of their work the present competition between railways and road hauliers, but not eliminating it, should be possible as soon as the present atmosphere is improved, as we hope it will be by our recommendations." The last aspiration has perhaps not been entirely fulfilled, but such an enquiry as was contemplated by the Salter Conference should be undertaken as soon as possible, and should be extended to the wider issues which were outside the purview of that Conference. These issues may be summed up in the question whether the Act of

1921 requires amendment, especially in regard to the existing provisions as to "standard revenue" and to the whole structure of the railway rates system. The opportunity was taken during the passage of the Road and Rail Transport Act through Parliament to insert provisions permitting the railways to charge "flat rates" for certain traffics. This provision in effect enables the railways in some cases to accord that "preferential treatment" which was prohibited by the Act of 1921 and may operate to discriminate unfairly between individual traders. The operation of this provision in particular should be very carefully examined. In view of the grave competition which still exists between road, rail and canal in the carriage of goods, and the need for a complete overhaul of the existing system of railway rates, a careful examination should be made of the possibility of assimilating road, rail and canal rates and of establishing a joint Rates Tribunal with authority over these forms of transport. This problem must, of course, be considered in close relation with the fourth competing form of transport, coastwise shipping.

40. The handling of merchandise certainly requires a thorough and immediate overhaul in one aspect. The present state of the docks and harbours of this country is most unsatisfactory and undoubtedly leads to a very considerable amount of

economic wastage. As the result of the complicated history of our maritime trade and of our port facilities, there is a bewildering variety of ownership and of management. The Royal Commission on Transport in their Report of 1931 summarised the ownership and management of the Docks and Harbours of Great Britain under the following main heads:

a. Local commissions or trusts, not working for profit, established under statutory authority	110
b. Municipal authorities	70
c. Railway companies	50
d. Harbour companies or individuals	100

These groups are of course capable of considerable further subdivision. This variation in ownership naturally results in wide differences, alike in policies of management, in facilities offered, in rates of pay, in dock dues on ships and dues and handling charges on goods, and in labour operations aboard and on shore. It is obvious that considerations of this nature may drive traffic to or away from any given port, without regard to the economic suitability of that port for the particular traffic concerned. A greater measure of co-ordination between the different port and harbour authorities would be an economy, both from the national point of view and from the point of view of the authorities themselves; and it would render possible the treatment of certain areas in this country, such as the Bristol Channel, as economic

units for the purpose of handling maritime trade. One particular branch of this problem requires special consideration, namely the proper basis of competition between railway-owned docks and other docks.

41. There are, further, certain specific points to which the attention of the Government must be directed in its general control of the programme of reconstruction. The first is the location of industries. Naturally the location of an industry is to a considerable extent controlled by purely economic considerations of cheap production and easy distribution. In a purely *laissez-faire* system these considerations might be a fair guide to the economic interests of industry as a whole; but, in our existing system, economies effected by one industry in this way may be more than counter-balanced by social expenditures, both in providing for new centres of population and in easing the decline of old centres, the burden of which will fall heavily on industry as a whole. In such circumstances, what is economically right for a given industry may be economically wrong for the industrial community at large; and the modern problem of the "distressed areas" is a striking proof of this fact. The considerable industrial expansion of the past three years has shown a decided tendency towards Greater London and South-East England. By far the greater proportion

of new industries are situated in these areas, which, never so depressed as the rest of the country, are now given a fresh impetus towards prosperity at the expense of other areas. Government must undertake the task of striking the proper balance between the economic interests of individual industries and the economic interests of the community as a whole. It must, therefore, to some extent regulate the geographical tendencies of industrial development, and it must begin by imposing some check on the transfer of existing industries from old to new centres of population. The next step of controlling the location of new industries will be more difficult. Government can, by its own action, remove some of the incentives to the present drift towards the south by a further attack on the problem of local taxation. A further move can be made in the direction of rate equalisation, or special taxation may perhaps be imposed on new industries for the new schools and other community services which have to be provided for their employees. A positive check may also be imposed by a greater central co-ordination of town-planning schemes; and this is particularly necessary in the Greater London area, including the rural districts of the Home Counties immediately beyond the present limits of recent industrial development. But, whatever statutory powers the Government may thus take to control development, to penalise wasteful movements and to facilitate advantageous ones, its most effective

action must lie along the line of active consultation with bodies representing the industries concerned. We contemplate a Location of Industries Act, conferring powers on the Government, but we attach even more importance to the establishment of regular means of consultation between Government and industry.

42. We have deliberately refrained from suggesting any form of subsidy as an incentive to industries to establish themselves in particular areas; but there is a second problem in dealing with which the question of compensation may arise. In many individual schemes of industrial reorganisation it may happen that provision has to be made for the closing down of a certain proportion of the plant formerly engaged in production. Normally it would be expected that the industry itself would make provision for the necessary compensation, either by means of a pooling scheme or in some other appropriate way. In the case of contracting industries, however, this may prove to be impossible, and, though redundant plant in a contracting industry may have no economic value, it may yet have a "nuisance value" when a scheme of reorganisation is undertaken. In circumstances such as these, it may be well worth the while of Government to provide from public funds, under proper supervision and with adequate safeguards, the necessary finance for this purpose. We would, however, lay down the principle that

the workmen employed by the industry concerned should be recognised as having at least an equal right with the shareholders to participate in any compensation so provided. This principle seems to have been already partly recognised in the pending Electricity Supply Bill. We shall have to discuss later the future relation of the employed workman to the industry which employs him; but, even if the workman is regarded as having no interest in his industry beyond a weekly or monthly contract of employment, it is obvious that such interest may be of more present value than the interest of the shareholder who has, in practice, no prospect of receiving a dividend.

43. One of the factors which has so far impeded the work of reconstruction, particularly in old-established and complicated industries, has been the geographical situation of existing works and factories. It frequently happens that, by the accidents of the growth of an industry, the different stages of production are carried on in places far distant from each other. The resultant waste in time and in transport and labour costs may be very considerable. The factories are there, and although commonsense and proper industrial organisation would require them to be grouped together, they are too valuable to be scrapped, and the cost of transfer and rebuilding is too great. It may be proved at a later stage of reconstruction that Government can help, either

directly, or through the medium of a finance corporation, by making long-term loans at a low rate of interest for the purpose of the transfer of operations and the reconstruction of premises in approved cases, where such transfer and reconstruction is likely to lead to reduced overhead charges and greater competitive power. It would be in accordance with the general principles laid down in these pages if such advances were made under the supervision of an industrial and financial advisory body set up by Government after consultation with industry.

44. Finally, it is desirable to institute as soon as possible, an enquiry into the incidence of the Income Tax laws upon industry. There is a very strong feeling in industry at the present moment that the existing provisions, in particular with regard to sums carried to reserve, and in regard to depreciation and replacement of plant, are not calculated to give British industry the best chances of developing itself and of coping effectively with foreign competitive power based on more equitable tax considerations. An enquiry into these questions with the object of adjusting taxation so as to achieve these ends should be undertaken immediately.

45. The foregoing paragraphs can be no more than a brief summary of some of the chief heads of economic reconstruction on the industrial side.

As the task proceeds, the rough plans sketched in these notes will no doubt be many times superseded; the emphasis of the various parts will be altered; some old problems may solve themselves or be solved in ways that we have not yet contemplated; certainly many new ones will arise. Enough has, however, been said to indicate the nature and magnitude of the task and of the difficulties. The difficulties must not be underestimated, but they must be faced in such a way as to secure the whole-hearted co-operation of industry and labour.

46. It will be clearly seen from the preceding paragraphs that if the task of reconstruction is to be properly carried out, it will entail a considerable change in outlook and procedure, in mechanism and in objective, over a large number of different industries. If it were carried out solely by ukase from the Government the disturbing effect upon industry during the period of transition might well be indistinguishable from the effects of conversion to Socialism. Moreover, the task of devising suitable solutions for a vast number of entirely distinct industrial problems is clearly one which should be left as far as possible in the hands of those accustomed to deal with such problems. It is not one for which our present political machinery is entirely fitted. Industry would naturally and rightly be very quick to resent any suggestion of political interference or political

control. But at the same time it is equally clear that there must be some directive intelligence in charge of the general plan of reconstruction. There must be a check, a balance. Individual industries must be armed with sufficient powers for their own reconstruction; but if each industry sets about using these powers in complete isolation, the final result may well be more chaotic even than the present position. Government must itself be responsible for the general direction of economic policy, but there is a need for a body which will act as adviser to the Government on industrial and economic problems. The Government of the day has, it is true, the benefit of the assistance of the Economic Advisory Committee, a body endowed with no permanent habitation, leading an apparently sporadic existence and drawing up "confidential" reports for the perusal of unknown authorities. There is a close but secret connection between the Government and the Bank of England, and there is a certain contact, still more ill-defined and amorphous, between the Government and the Federation of British Industries. The Federation, while it is probably the most representative and authoritative body speaking for industry at present, is by no means comprehensive, and has, of course, no official status. For its contacts with labour the Government must rely very largely on the good offices of the Trades Union Congress; and, without implying any criticism of this body, their political affiliations

naturally make it very difficult for them to deal frankly with any but a Socialist Government. The whole basis of sound public administration must be the successful co-ordination of the diverse elements of financial, industrial and social policy; yet the machinery for securing that co-ordination does not at present exist in any satisfactory form. The Government has complete control, through the House of Commons, over social policy, but over industrial and financial policy its powers at present are rudimentary.

47. Proposals for the formation of something in the nature of an Economic Parliament excited much attention immediately after the war, but broke down because their authors at that time appeared to envisage a third Chamber of Parliament. Similar proposals have since been put forward from time to time, but have failed to gain any general acceptance, largely, we believe, through trying to achieve too much. What is needed is nothing more elaborate than a small but representative body, with two main functions. Such a body would advise Government and Parliament to what extent they can wisely use their powers of administration or legislation to assist or regulate the affairs of industry; but its more important function would be to offer to the industries of the nation opportunities of working out common self-governing policies which may render unnecessary the interference

of Government or the intervention of Parliament. It is of the greatest importance that the interests of labour should be fully represented on such a body, by men who can command the respect and confidence of their fellow-workers. Its deliberations would be carried on in an atmosphere of co-operation and not of political conflict, and such co-operation would not involve any compromise of Trade Union principles, and, indeed, the whole policy outlined in these pages in no way conflicts with the ideals for which the Unions have worked in the industrial field. If such a body had existed during the past few years, it is certain that informed opinion would have been focused on many of the issues which we have raised in this paper. In a later section of this paper, we raise a series of questions where social policy depends upon industrial policy, in all of which enquiry, discussion and advice will be essential if a right solution is to be found. Above all, whereas the House of Commons hardly ever has an opportunity of discussing the financial policy of the nation, except with reference to the taxation and expenditure of a particular year, such an advisory body could increasingly clarify the broad issues of financial policy, as it affects the producers and distributors of wealth, and could render unnecessary the sporadic appointment of Colwyn or May Committees, whose reports, written for the moment, fail to carry conviction for more than a few months.

48. Here we touch an issue on which a special word must be said. Of all the misunderstandings which hinder the formulation of a coherent economic policy, the worst is the misunderstanding between the industrialist and the banker; of all Committees or Commissions whose reports seem to have been writ in water, so far as their effect on public opinion is concerned, the most ineffective has been the Royal Commission which produced the Macmillan Report. There is to-day a widespread feeling among industrialists that, in some obscure way, the ills from which we are suffering, and in particular the phenomenon of "poverty in the midst of plenty", are due to an antiquated system of currency and credit, for which the Treasury and the bankers, and especially the Bank of England, are primarily responsible. This feeling is shared by a large section of the general public. The industrialist cannot be expected to sacrifice willingly any part of his present independence, the general public cannot be expected to accommodate themselves contentedly to the laborious planning of "social services", so long as they entertain the suspicion that there is some easy and painless way out of our distresses, that a little effort directed to the planning of money and credit would render unnecessary any elaborate planning of industry itself, that doles and means tests would quickly disappear at a wave of the monetary wand, and that, indeed, "planned money" might give

another century's lease of life to the *laissez-faire* system in production and distribution. Unless those who represent industry, commerce and finance can be brought together for the frank and responsible discussion of economic policy, these misunderstandings cannot be cleared away and no real mobilisation of the economic forces of the country can be expected.

49. The Macmillan Report made some effort to dissipate these misunderstandings. In paragraph 16, its authors issued a warning against too great reliance on monetary expedients: "In the case of nations as in the case of individuals, no financial system, however devised, can work miracles, nor can it cope with all the problems which may be presented to it by an unsound national policy, whether internal or external. If our budgetary position is unsound, and if our industries, owing to the level of their costs, or for other reasons, are unable successfully to compete, as they used to do, in the markets of the world, no management of the terms and quantity of credit will be able to maintain our national prosperity." But in an earlier paragraph, they asserted no less definitely the need for new methods in this field: "The lesson of all this for our present purpose is that in the case of our financial, as in the case of our political and social, institutions we may well have reached the stage when an era of conscious and deliberate management must succeed the

era of undirected natural evolution". And at later stages in their report they made various proposals to give effect to this point of view. In particular, in paragraph 280 they say: "The monetary system of this country must be a Managed System. It is not advisable, or indeed, practicable, to regard our monetary system as an automatic system, grinding out the right results by the operation of natural forces aided by a few maxims of general application and some well-worn rules of thumb. The major objectives of a sound monetary policy . . . for example, the maintenance of the parity of the foreign exchanges without unnecessary disturbance to domestic business, the avoidance of the Credit Cycle, and the stability of the price level . . . cannot be attained except by the constant exercise of knowledge, judgment and authority, by individuals placed in a position of unchallengeable independence with great resources and every technical device at their disposition."

50. Moreover, the Macmillan Commission did not by any means take the view that the existing banking system was the one best adapted to meet the needs of industry and to supply the necessary capital and credit on the most advantageous terms. They paid a high tribute to the City of London as the most highly organised international market for money in the world, but they pointed out that its chief merits lay rather in the short-term money market, the financing of trade and

commerce, at home and abroad, and the issue of foreign bonds, than in the financing of British industry. They summarise the position in paragraph 397 of their Report in the following terms:

Coming back to the more general question of the relations between finance and industry, and in particular to the provision of long-dated capital, we believe that there is substance in the view that the British financial organisation concentrated in the City of London might with advantage be more closely co-ordinated with British industry, particularly large-scale industry, than is now the case; and that in some respects the City is more highly organised to provide capital to foreign countries than to British industry. We believe this to be due in part to the historical organisation of British industry and to the fact that industry, having grown up on strongly individualistic lines, has been anxious to steer clear of anything which might savour of banking control, or even interference, this attitude coinciding with the views which prevail in this country as to the province of sound banking. Nevertheless a further development of our financial organisation is possible, which would be distinctly beneficial and need not be inconsistent with these traditions.

The Commission then went on to point out the need for a body or bodies on the lines of the Bankers' Industrial Development Company, but independent of the Bank of England, which should perform the following functions: "Acting as financial advisers to existing industrial companies, advising in particular as to the provision of permanent capital, its amounts and types; securing

the underwriting of and issuing the company's securities to the public, and, if necessary, assisting previously in arranging for the provision of temporary finance in anticipation of an issue; assisting in financing long contracts at home and abroad, or new developments of an existing company, or founding companies for entirely new enterprises; acting as intermediaries and financial advisers in the case of mergers or in the case of negotiations with corresponding international groups; and generally being free to carry out all types of financing business". They went on to set out the requisites of such an organisation, which would include substantial capital, and the co-operation of existing institutions with large financial resources. They further expressed the view that these were not functions which could properly be undertaken by the existing joint-stock banks, compatibly with their existing banking functions, but that fresh institutions should be formed by co-operation between the "leading private institutions and the big banks".

51. We quote these passages mainly as instances of three kinds of failure to satisfy public opinion. In the first place, the warning against undue reliance on monetary reform has fallen on deaf ears. The Commission's dismissal, after examination, of such proposals as Major Douglas's "Social Credit" scheme has not lessened the interest in those proposals; indeed, new variants of them are

constantly invented. The Government is constantly pressed to undertake a new enquiry over the ground traversed by the Commission; yet it seems certain that no such single enquiry would carry any greater or more permanent measure of conviction. Secondly, the recommendation as to a "managed system" of currency has, in a sense, been carried out, since our forced abandonment of the gold exchange standard in 1931. We have undoubtedly to-day a "managed system", but the methods and principles of its management are a mystery to most industrialists. The Commission recommended that the agent of management should be the Bank of England; but it is increasingly doubtful whether management by that agency, as now constituted, however efficient it may actually be, can ever enlist the complete confidence of the great body of working industrialists, who have no wish to interfere with the highly skilled business of the financial expert, but who not unnaturally expect that, if there is to be "conscious and deliberate management", they should be at least allowed to be "conscious" of its general methods and its general direction. Thirdly, the Commission's recommendations as to the financing of industry have not been acted on, though they constitute an essential element in any industrial reconstruction policy. Thus a great Commission, speaking with the utmost weight of authority, fails to produce results. Its general conclusions are forgotten and its specific recommenda-

tions are either neglected or are carried out by methods incompatible with their spirit.

52. It is, then, we submit, in this field that a permanent advisory body is, perhaps, most urgently needed. There must always be a necessary secrecy in the day-to-day operations of financial policy, as in the day-to-day management of a factory or a distributing house, or the day-to-day conduct of Government policy. But the mystery which now surrounds those operations is neither necessary nor even intended by those who conduct them. It is possible to establish such a general understanding in regard to them as will allay among industrialists the present uneasy feeling that any calculations upon which a policy of industrial reconstruction may be based may at any time be upset by some change in financial policy. And a new understanding between financier and industrialist will go far to give the general public the same confidence in the soundness of the general monetary policy of the nation as they now feel in the safety of the banks where they deposit their savings.

IV

THE MACHINERY OF GOVERNMENT

53. THE politician who has the temerity to expound proposals for the better organisation of industry, must be prepared to hear the industrialist criticise the present organisation of Government and must be ready to meet that criticism. It would be manifestly idle to bring into being a plan for the organisation and operation of industry, however carefully thought out and however perfect in its conception, if Government, which must be the motive force behind any bold scheme of reconstruction, were to be left to make shift in modern conditions with the machinery of the eighteenth century. The question whether we should choose our present form of Parliamentary democracy on *a priori* grounds is irrelevant. As Mr. Baldwin has said: "A public man in any generation has to work in the environment in which he is found . . . and it is the bad workman who complains of his tools". The system exists and it does its work; it can only be displaced if there is a more satisfactory and practicable alternative which can be rapidly introduced in this country, without involving an altogether incommensurate dislocation. We do not believe that there is; but it does

not follow from that that we can afford to leave our Governmental machine to trundle along as it does at present. The wheels creak in too many places. Parliamentary government is to-day being shot at from both flanks, by the demagogue and the autocrat alike; it is said to be too slow, too cumbrous and not sufficiently responsive to public opinion. The attacks are serious, and can only be resisted if Parliament fulfils two conditions. It must deal successfully with modern problems, and it must convince those who are subject to it of its effectiveness under modern conditions. The two tasks are really one, for if Parliament is performing its work effectively, it will have no difficulty in carrying conviction to those who are governed by it.

54. There are three elements in the machinery of Government which require consideration in this connection—Lords, Commons and Executive. The question of the House of Lords cannot be dealt with here, nor is this perhaps the appropriate occasion to elaborate comprehensive proposals for the reform of Parliamentary procedure. The procedure of the House of Commons is a highly technical subject on which there are few experts, and detailed suggestions for improvement can appeal only to a limited audience. Some of our number have prepared and presented such proposals elsewhere, which cannot be included in the present document. It is sufficient for our pre-

sent purpose to indicate that in our view the object of all Parliamentary reform should be:

- i. To facilitate the discussion on the initiative of private members, of questions of topical importance which might otherwise escape attention;
- ii. To avoid the disproportionate expenditure of time on the Committee stage of Bills;
- iii. To provide, by proper use of Supply procedure, both for adequate general discussion of problems of policy and for proper financial control over Departmental expenditure; and
- iv. To enable the private member to play a more valuable individual part by bringing him into closer contact with the Departments.

55. There is, however, one feature of Parliamentary life which has been giving increasing concern of recent years, namely, the growing encroachment of the Executive on the legislative field. With the increasing complexity of modern life and of the subjects which are dealt with by Parliament, it is inevitable that there should be an increase in the amount of legislative power delegated to the Executive. If Parliamentary time is not to be hopelessly overburdened and if Members are not to become mere specialists, but to retain

that breadth of outlook which is one of the most important qualifications of the Parliamentarian, a great mass of detail must be dealt with by Departmental Order. But the tendency is one which must be very carefully watched. There are certain obvious dangers about it, and the not impossible combination of a weak Commons and a strong Executive might enable it to be used in such a manner as completely to alter the balance of the machinery of Government, almost before the country could realise what was going on. The Donoughmore Committee on Ministerial Powers gave very careful consideration to this problem, and their Report (Cmd. 4060 of 1932) is one of the most interesting State Papers of recent years. They recommended (p. 67) that "Standing Orders of both Houses should require that a small Standing Committee should be set up in each House of Parliament at the beginning of each session for the purpose of

- "A. considering and reporting on every Bill containing a proposal to confer law-making power on a Minister;
- "B. considering and reporting on every regulation and rule made in the exercise of delegated legislative power, and laid before the House in pursuance of statutory requirements."

In view of the appointment of the Donoughmore Committee, the Commons Select Committee on

Procedure did not exhaustively consider this question, but they did recommend (129 of 1932, p. xvi) "that attention should be called to the laying of all such rules and orders on the Table of the House by the Clerk's reading out the titles of such rules and orders, immediately after Private Business, on the Parliamentary day following the day when they were laid upon the Table". This recommendation has not been accepted by the Government, nor have any steps been taken to implement the Donoughmore report. This is a matter which clearly demands urgent attention. Steps should be taken at once to carry out the major recommendations of both Committees, and in particular to establish the Standing Committee contemplated by the Donoughmore Committee. If Parliament does not display a more vital interest in these urgent questions of its own procedure, it may discover that reform comes too late.

56. Turning to the Executive, no more recent enquiries have been made into the operation of the system of Cabinet Government than the Haldane Commission of 1917. The Donoughmore Committee was concerned with other questions and some of their recommendations have already been dealt with. These cover, however, but a small part of the problems of Ministerial Government. One of the chief difficulties of Cabinet Government is analogous to that which faces

every individual in active public life under modern conditions, namely, the pressure of time and the difficulty of finding sufficient opportunity for the careful consideration and examination of wide problems. The Cabinet is the Executive Government of the country, and as such must deal from day to day with all the main problems which arise. A Cabinet Minister, if he is in charge of a Department, has a double responsibility—his responsibility for his own Department and his general responsibility as a Minister of the Crown. The danger is that he may become so engrossed with the heavy demands of his own Department that he is unable properly to fulfil the functions of a Cabinet Minister, just as many Members of Parliament become so solicitous for the interests of some section of the community that they overlook their duty to the country at large. Moreover, the Cabinet is an unwieldy body and the doctrine of collective responsibility can hardly be a reality when it is applied to so large an organism. The present Cabinet consists of 20 members, which is about the post-war average. The smallest post-war Cabinet has been the first National Government, which consisted only of 10 members, and the largest was the last Coalition, which had 23. Most of those who have given this matter careful consideration have come to the conclusion that the size of the Cabinet should be diminished, and many have also felt that the business of the country could be better carried out with a

redistribution of the Departments. Detailed recommendations for the redistribution of business would be out of place in the present Memorandum, but it would appear to us that a Cabinet of 10 is desirable, but may not be attainable. The 9 essential Ministers, including one Minister without portfolio besides the Prime Minister, would be the following:

Prime Minister;	
Lord Chancellor;	
Chancellor of the Exchequer;	
Lord President of the Council;	
Secretary of State for Foreign Affairs;	
„	„ Home Affairs;
„	„ Imperial Affairs;
„	„ Defence;
„	„ Trade and Industry.

The Prime Minister, Lord Chancellor, Chancellor of the Exchequer and Foreign Secretary would, of course, retain their present functions, subject to any possible future development of the work of the Lord Chancellor's office. The Secretary of State for Home Affairs, while perhaps transferring the functions of factory inspection to his colleague of Trade and Industry, might assume most of the functions of the Ministry of Health and Board of Education. The Ministry of Defence requires no elaboration, and the integrity of the Service Departments would be preserved by the existence of three Sub-Ministers in charge of the respective

Departments of War, Admiralty and Air. There is some difficulty about the Ministry of Imperial Affairs, and it may be said that a Department which included the present Dominions Office, the Colonial Office and India would be entirely beyond the capacity of any one man; it might be essential to maintain the separation of India, as Disraeli did in his proposals of 1855, at the cost of increasing the Cabinet by one. The new Secretary of State for Trade and Industry would take over the existing functions of the Board of Trade, with its present Sub-Ministers of Mines and Transport, together with most of the functions of the Ministries of Agriculture and Labour. If this scheme is regarded as overloading the Home Department, Health and Education might be amalgamated in a Ministry of Local Government. In this, as in all other cases of amalgamation, there should be Sub-Ministers for the main sub-Departments, forming a kind of sub-Cabinet with the controlling Minister. The Post Office should remain outside the ordinary departmental machinery, as a "public utility" business; and a separate Insurance Department might well be organised on the same basis. The Scottish Office presents a peculiar difficulty; its head could hardly have a lower rank than Secretary of State, for Scotland would not be content to be represented in the Cabinet by the Home Secretary, however great might be the devolution to Edinburgh of purely Scottish affairs. The conclusion appears to

be that the Cabinet might theoretically be reduced to 9 members, but might in practice have to be increased to a maximum of 12.

57. The obvious criticism of these proposals is that the combination of Departments, which we are accustomed to regard as being independent, under the responsibility of one man lays too great a burden on the individual, particularly in the three cases of Defence, Home Affairs and Trade. One of the main objects of such an amalgamation, however, is to relieve the Cabinet Minister from the necessity of devoting a great deal of valuable time to minor details and so to set him free for the closer consideration of grave questions of policy. The reorganisation must clearly be accompanied by an increase in the importance and the responsibility of the Under-Secretaries and the Parliamentary Secretaries, who would become, in effect, the heads of the separate Departments grouped under one Minister. The present House of Commons contains abundant proof that it is possible to find Parliamentary Secretaries who are entirely capable of controlling the administrative routine and details of their Departments. The most important object to be achieved by any measure of administrative reform is the release of political leaders from the drudgery of detailed work in order that they may bring their abilities and experience to bear upon our wider problems. The control of detail by the Under-Secretaries

and of general policy by the Cabinet, together with the suggested reforms in the procedure of the House of Commons, will, it is believed, open up the way to the proper execution of the large programme of reconstruction outlined in these pages.

V

THE SOCIAL ASPECT

58. WE have already defined the ultimate object of industrial policy as being "to secure, by the maximum amount of co-operation between Government and industry, a constant increase in the standard of living". We have outlined the machinery, both industrial and governmental, which we believe to be necessary to secure the desired results and have indicated the manner in which this machinery should be employed in the economic and financial fields. We have set out our view of some of the main objectives to which industrial and financial policy should be directed. It now remains to indicate what will be the effect on individual life of the measures so far advocated and how the whole policy can be directed towards the general raising of the standard of living, both by the conscious creation of employment and by the improvement of conditions for those who are employed.

59. The first question to be considered is, of course, the effect of the policy on wages. It is easy to answer this question in broad terms. The present atmosphere of suppressed conflict in in-

dustry, and indeed the affiliation of the Trade Union movement to the Socialist Party, arise mainly out of the issue how the rewards of industry are to be distributed. The measures of greater co-ordination and better organisation here proposed are designed not only to increase the total volume of these rewards but also to provide the machinery for exercising a more conscious control, both over the conditions in which the rewards of industry are created, and over the proportions in which those rewards are shared.

60. But a more detailed answer to the question raises issues which cannot be adequately discussed in this memorandum. We have, in existence or in contemplation, three different sets of machinery dealing with the internal problems of industry: the present machinery of Trades Unions and Employers' Federations dealing with wages, the machinery of Joint Industrial Councils dealing (generally) with other aspects of the relations between management and labour, and the machinery here proposed for the better organisation of production and distribution. It is clear that the operations of these three machines are closely interdependent, and the mere theorist might conclude that the closer co-ordination of industrial management should be accompanied by the organisation, factory by factory, area by area and industry by industry, of Joint Industrial Councils far more representative, more responsible and

more powerful than those which have hitherto been established since the Whitley Report. But, from the point of view of practical statesmanship, it is by no means certain that we should not lose more than we should gain by scrapping the existing machinery of wage negotiation in favour of some more tidy scheme. True, we are, in fact, proposing, by the Industrial Enabling Act, as by the Agricultural Marketing Acts, to adopt the old and well-tried method by which the British nation has so often reconciled State policy with private initiative: the method of imposing statutory responsibilities. It sounds attractive to argue that we should be prepared to pursue the same course in regulating the distribution of the rewards of production, especially in view of the fact that Government has recently launched an experiment of this kind in conferring statutory powers for the enforcement of wage agreements in the cotton industry. But this experiment was tentative; it was initiated for the express purpose of validating agreements reached through the existing machinery, not for the purpose of superseding that machinery; and it may be urged with great force that this is the cautious line of policy which it will be wisest to pursue.

61. Moreover, we have not only to consider the competing claims of capital, labour and the consumer within any particular organised industry, but also the even more difficult question of the

relation between wages in different industries. No one would either expect or desire that there should be too great a degree of uniformity between wage levels, but too great a disparity in wages between sheltered and unsheltered industries is an admitted evil. The evil can only be remedied in one of two ways: either by restoring the free movement of labour between different forms of employment, or by some measure of central planning through a National Wages Committee. The first solution has been advocated by some individualist economists, and there are many theoretical arguments in favour of it. It is a curious fact that our so-called "capitalist" society, through the operation of the *laissez-faire* system of the Stock Exchange, is constantly equalising, with a fair approximation to justice, the rewards which the investor of capital may obtain from purchasing shares in the most sheltered and the most unsheltered industries, while it leaves Labour employed in the two extreme classes of industry to enjoy or to suffer the most disproportionate rewards. But to apply the *laissez-faire* solution to Labour would involve the destruction of much of the present Trade Union system, and few practical statesmen would be prepared to contemplate such a policy. Equally, however, any scheme for a National Wages Committee would profoundly disturb the existing machinery of wage negotiation.

62. These complicated issues cannot, therefore,

be discussed in these pages, but must be left for later consideration. It must suffice for our present purpose to point out that, under the proposals we have already made, relations between employers and employed will, at least, tend increasingly to be conducted with the knowledge that, in the background, a systematic effort is being made to secure a just distribution of the rewards of industry by enabling industry to operate at a profitable level under conditions of market stability. In these matters psychology is all-important, and the greatest guarantee against warfare in industry will be that the whole system we have outlined must depend for its success on willing co-operation between management and labour, whatever may be the precise machinery of such co-operation. In this country, a call to partnership, if honestly made, is rarely refused or abused, especially when it is reinforced by a call to discharge, on behalf of the State, concrete responsibilities for social welfare. Such a call evokes a wider response than the ideal of the doctrinaire Socialist, who aims at merging all human partnership in an impersonal official system of State ownership, controlled by the dehumanised processes of mass voting.

63. The industrial policy which we have outlined, however, will probably not, at any rate for some time to come, afford full employment either to labour or to capital. We must supplement industrial reorganisation by a direct attempt to

revive investment in certain labour-absorbing enterprises of great importance to the nation, but which seem at present unable to attract or utilise effectively the capital they require. The policy of "relief works" pure and simple has long been discredited, but there is still room for capital expansion in certain remunerative directions. We may mention two great fields for expansion, which are desirable both economically and socially. The first is housing. The existing slum clearance schemes are an excellent example of "public" works—that is to say, works financed directly by Government. But there is another aspect of the housing problem, which requires a different mode of finance. A Housing Corporation of quite simple constitution should be established for the sole purpose of mobilising private investment in house property, and particularly in new house property, built in accordance with scientific town planning. The second field is agriculture. Here, too, there is need for replacing the present practice of sporadic grants, subsidies and repayable advances by a statutory Agricultural Development Board able to command the finance necessary for a wide policy of agricultural development, directed towards the lowering of production costs, the better organisation of production and distribution, the expansion of consumption, and the improvement of rural conditions of life, including rural housing. It is to be noted that these proposals are not directed towards an increase in public indebted-

ness, but towards the mobilisation of private capital which is at present "going begging", without sufficient opportunity of useful or remunerative employment. It is preferable to finance housing and agricultural development, as also the improvement on a large scale of plant and equipment in many industries, in this way, on the credit of the business enterprises concerned, rather than by the flotation of a large development loan on the sole credit of the Government to be expended at the Government's discretion on miscellaneous purposes. But Government credit is now so strong that, if some use of it is required to hasten the mobilisation of private capital, Government should not be afraid to use its strength for this purpose.

64. One of the greatest advantages of the proposed improvement in the organisation of industries is that, under such a system, it will for the first time be possible to measure with some degree of certainty the prospects of profitable employment both in a given industry and over the field of organised industry as a whole. We have at least good ground for hoping that the volume of such employment will be greater under the new system than under the present system; but it may be doubted whether it will ever be sufficient to absorb the whole of our industrial population. The contraction of certain great industries is a cause rather than an effect of the present economic confusion; it is a sign that to some extent at

least the era of industrial expansion is past. Any economic policy must make provision for those who are not certain of a reasonably secure economic future.

65. Insurance against Unemployment will be even more necessary in the future than in the past. There are very strong arguments for retaining the contributory system and for exacting a contribution from the employed person. There are equally strong arguments against the present system of employers' contributions, which in effect operate as a tax upon employment, and frequently deter an employer from engaging additional labour. In any revision of Unemployment Insurance the opportunity should be taken to revise the system of employers' contributions and to readjust the burden, either by increasing the Exchequer contribution or by equalising the payments over industries. But even with this minor adjustment is the present system adequate? The financial arrangements of the average working-class home at the present moment are extremely complicated; money may be coming from many different sources, all under different rules and regulations—wages, workmen's compensation, unemployment benefit or assistance, old age pensions, contributory or not, widows' and orphans' pensions, National Health Insurance and so forth. This degree of complication is surely unnecessary. It is quite possible to devise one comprehensive system

which will cover the whole field of contractual insurance—unemployment, sickness, old age and accident—so that whenever wages fail for any reason the assistance for which the contributor has contracted with the Insurance Fund may be forthcoming from one source. Such a reform would involve a considerable saving in administrative expense and a correspondingly larger return to the contributor, to say nothing of the saving in time and temper made possible by dealing with one authority instead of several. The trail has been well blazed by the existing schemes of social insurance and the experience gained from their operation has been invaluable, but no one can suppose that the last word in social insurance has been said. The scheme should be contributory, though the contributions would have to be delicately graded; the wide field of contribution, the size of the funds available, and the saving in administrative expense would render possible the payment of benefits (also, of course, carefully graded) which would approximate more closely than is at present possible to the actual level of wages, and so translate into reality the Socialist election cry of “work or maintenance”. There seems to be no adequate reason why Workmen’s Compensation for accidents should not also be included in a comprehensive insurance scheme. The present system of Workmen’s Compensation leads to many abuses, and, in the absence of a comprehensive recon-

struction of the whole insurance system, will in any event require overhaul at an early date, since the existing maximum payments, which have remained unaltered for many years, are deplorably low and take no account of family responsibilities.

66. These proposals, however, so far as they relate to insurance against loss of employment, are merely palliative, and, if they stood alone, might justly be regarded as purely negative. A Government of Reconstruction which was pursuing the policy already outlined in these pages would use that policy in a deliberate effort to promote employment along other lines. One of the most promising lines of approach to this problem would appear to lie in the control of the entry from the schools into industry. There is at present very often a serious and deleterious gap between the end of school life and the beginning of employment which is frequently repeated later at the conclusion of a "blind alley" employment. The solution of the problem lies in two directions: first, every organised industry should be called upon to define its policy in the recruitment and training and subsequent employment of its juvenile labour, and secondly, there should be a gradual strengthening of the vocational guidance afforded to young persons by the schools and local authorities. It should be the object of government to establish co-operation with industry and to control the flow of juvenile labour

from the schools into industry for the purpose of establishing a joint employment policy with industry. A comprehensive policy for this purpose must combine in one scheme the gradual raising of the school leaving age, part-time education up to 18, and the development within each industry of a recognised system of apprenticeship in the widest sense. In Appendix II will be found a Draft embodying the outlines of an Education and Employment of Young Persons Bill.

67. Of all schemes for the promotion of employment, a policy for the development of agriculture is the most important. We have already pointed out how desirable it is, on general grounds, to redress the balance between rural and urban life in this country and to employ a larger percentage of our population in agricultural occupations. The agricultural policy of the present Government has hitherto been necessarily confined to an effort to maintain in profitable employment those who now normally depend upon agriculture for their living; but, in speaking of the Agricultural Development Board, we have indicated that this policy needs to be expanded. Important as it is to adjust agricultural production to demand, there is room for a large increase in consumption of at least some classes of foodstuffs, and consequently for the employment on the land of at least a limited number of persons displaced from industry. Group settlement, based

upon the small family holding, seems to offer a real prospect of establishing a form of agriculture which will be economic and yet will not unduly enhance the difficulties of the marketing problem.

68. It is probable that such a scheme, undertaken in this island, would eventually solve some of the problems of Empire migration. Emigration to the Dominions seems to-day to be surrounded with almost insuperable difficulties, and many of the arguments in favour of group settlement at home are rather arguments against group settlement overseas in unfamiliar surroundings. But group settlement at home may be used as a means of accustoming the young urban worker to rural life and to those conditions of subsistence or localised agriculture which are tending to be reintroduced into large overseas areas under the pressure of unremunerative prices for staple crops. There is a danger lest His Majesty's Governments, both here and in the Dominions, may be caught unawares by a restoration of conditions under which migration on a considerable scale will once more become possible. Government in this country should be prepared betimes to finance schemes of assisted migration either alone or in conjunction with the Dominions concerned.

69. It will, however, probably be found that the possibilities of agricultural employment, whether in England or the Dominions, can only absorb a

limited number of men and their dependants and that any large impression on the problem must be made by other means. It is not every person who is displaced from industry who is either suitable for, or desirous of, a rural life, and the central part of the problem must be dealt with in another way. The policy of planning must be used so as to increase leisure by reducing the length of the working day or week. This presents a difficult problem. What is probably the most feasible reduction of the working week, the five-day week and the free Saturday, would have great educational advantages, largely solving the problem of the day continuation school, but it would not employ more labour. Any shortening of hours which would employ an extra shift, unless accompanied by a reduction in weekly earnings, must almost necessarily increase labour costs of production, and therefore raise prices. Either a reduction in weekly earnings or a rise in prices would *pro tanto* reduce the purchasing power of the individual consumer, and the mere spreading of purchasing power over a larger number of consumers would be a small advantage, not worth the friction and dislocation which it would entail. Obviously, this problem cannot be solved by any sweeping enactment, applied over the whole industrial field, still less by the signing of an international convention dealing merely with hours of labour and not also rectifying the great disparities which at present exist between this country and some of her chief

competitors in respect of wages and conditions of labour. Each industry must be left to work out the solution most appropriate to its own conditions. But the total volume of labour which needs to be absorbed by such planning of factory processes—by a “spread-over”, or by short shifts, or by organised short time—is, after all, small; and, if a deliberate national effort is made, the small contributions which each factory can make towards its absorption will, in the aggregate, go far towards a solution.

70. This policy should, so far as possible, be combined with a policy of facilitating the exit from industry of the older man. There are very great difficulties in the way of the immediate institution of a comprehensive system of retiring pensions at 55, or even at 60, and it is hardly possible to foresee a time when the cost will not be prohibitive, especially in view of the future age-distribution of the population. We should, however, be prepared to institute specific schemes for retiring pensions, on a non-contributory basis, in those industries which find themselves unable to work out a satisfactory scheme for the regular recruitment of young workers (see paragraph 66 above), unless they retire a number of their older employees. The burden of such pensions should be shared between the Exchequer and the industry in proportions which would probably vary according to the size of the burden and the parti-

cular circumstances of the industry. The pension, which would expire at 65, when the contributory Old-Age Pensions became payable, should be sufficiently large to provide a reasonable livelihood without augmentation from other public sources, and it should be an essential condition of such pensions that the recipient should be debarred from employment in his old industry.

VI

CONCLUSION

71. THIS memorandum has attempted in a necessarily brief and inexpert fashion to summarise the main outlines of a policy of reconstruction. Its shortcomings are many and obvious, but it is written in the sincere belief that a policy on these lines offers the swiftest and surest solution of our present distresses. We believe that it is essential that such a policy should be put into active force with the least possible delay. "It is still not quite too late": but the forces of defeat are gathering and the time is short. One of the greatest merits of the policy laid down is that it offers a practical alternative to the appeal both of Socialism and of Fascism. With its hopes of an improved standard of living, based upon a careful examination of facts, and with a real prospect of translating those hopes into reality, it offers to the working man a life in which he is something more than a mere cog in the industrial machine, enjoying a definite status in industry and sharing, to an extent never before contemplated, in its rewards. The man in the street, who does not desire to share the heavy responsibilities of Government but is dissatisfied with the mere quinquennial opportunity of casting

his vote for the least objectionable of several men whom he probably does not even know by sight, is tempted sometimes to believe that Fascism offers him a more continuous share in the working of the governmental machine; but our proposals offer to him the prospect, through industrial organisation, of a permanent and responsible share in the national life—in his own sphere, where he will be perhaps more at home than in dealing with wider political issues. To industry such a policy offers the chance of self-government, as an alternative to the dead hand of the Socialist or the Fascist State. To all it offers a partnership in a more prosperous, a happier and a more useful future—the opportunity, perhaps the last opportunity, of taking a responsible share in the “Endless Adventure” of ruling a society. More even than all this, it is in tune with the present aspirations of the people of this country; it meets a present need. If the problems awaiting solution are greater than ever before, so also the will to solve them is more powerful, the capacity keener. There has perhaps never before in peace time been such a vast amount of unharnessed and unorganised goodwill available for leadership. The amazing results of the 1931 election have shown that the people of this country are willing to make any sacrifice that may be necessary, to shoulder any burdens, if they are convinced of the need, and if they are given a clear and uncompromising lead. The people have not changed in three years,

and if the spirit now appears to be wearing a little thin, the fault lies with the leaders, and not with the led. The task of statesmanship is to cut a clear path through the tangle of our present discontents, and to go boldly down that path, knowing that where the way is clearly shewn to them, the people will follow.

APPENDIX I

INDUSTRIAL REORGANISATION (ENABLING) BILL

PART ONE

NATIONAL INDUSTRIAL COUNCIL

1. This Act shall be administered by the President of the Board of Trade (hereinafter called the Minister).
2. For the purpose of assisting the Minister in the discharge of his duties under this Act there shall be appointed an Industrial Advisory Committee (hereinafter called the Committee) of not less than 5 or more than 12 persons who shall receive such remuneration as Parliament shall determine, and whose remuneration and expenses shall be paid out of monies provided by Parliament. The Committee shall have power to form sub-Committees, and to co-opt on to such sub-Committees such persons as, with the approval of the Minister, they may think fit. Anything which, under this Act, may be done by the Committee may be done by a sub-Committee.

PART TWO

SCHEMES AGREED BY A MAJORITY OF THE INDUSTRY

3. Where a Scheme for the reorganisation of an industry (including a section of an industry) is presented to the Minister by persons who, in his opinion, represent a

substantial portion of those engaged in the industry, he shall refer such scheme to the Committee.

4. The Committee shall forthwith consider the scheme and report to the Minister whether the scheme is in the public interest, and in particular:

- a. Where the scheme refers to a section of an industry only, whether such section is a proper subject for a scheme.
- b. Whether the industry to which the scheme refers is sufficiently defined therein.
- c. Whether the scheme is designed to promote the greater efficiency of the industry and to eliminate wasteful competition.
- d. Whether the scheme provides for the inclusion of all units engaged in the industry.
- e. Whether the scheme provides adequate machinery for the consultation of those employed in the industry,
 - i. on all questions relating to wages, hours and conditions of labour in the industry, and
 - ii. on other questions relating to the industry in general.
- f. Whether the scheme affords adequate protection to
 - i. consumers of the products of the industry;
 - ii. all sections of the industry;
 - iii. other industries or sections of industries;
 - iv. the general interest of the community.
- g. Whether the scheme contains proper provisions for the future development of the industry, both

technically and commercially and in connection with its organisation and constitution.

- h. Whether the scheme contains proper provision for the effective distribution and marketing of the products of the industry.
- 5. The Minister shall within a specified time after the receipt by him of the scheme and before the scheme is reported upon by the Committee, cause full details of the scheme to be published in a manner to be provided.
- 6. The Minister shall provide for the making to the Committee within a specified time of representations in connection with such scheme by:
 - a. persons employed in the industry;
 - b. consumers of the products of the industry;
 - c. any other industry or section of an industry;
 - d. any other person or body who is, or who is likely to be, affected by, or interested in, the scheme.
- 7. The Committee before reporting to the Minister shall consider such representations, and if, having regard to them, they are of opinion that the scheme requires amendment they shall make such amendments as they think fit, and shall submit such amendments to the Minister together with their observations thereon.
- 8. The Committee shall further report to the Minister their recommendations for submitting the scheme to the vote of the industry concerned, and in particular the method by which the voting-power of the industry shall be calculated.
- 9. The report of the Committee shall be printed and laid before Parliament.

10. If the Minister after considering the report of the Committee is of opinion that the scheme is in the public interest he shall submit the scheme to the vote of the industry as recommended by the Committee.

11. If the scheme is approved by a majority of not less than three-quarters of those engaged in the industry the Minister shall embody the scheme in an Order which shall forthwith be laid before both Houses of Parliament and shall not come into force until it has been approved by both Houses of Parliament.

12. Where the scheme is not approved by the requisite majority the Minister shall make a report to Parliament.

PART THREE

AMENDMENTS IN AN APPROVED SCHEME

13. Where, after the approval of an Order,

- a. it is represented to the Minister by the majority of those engaged in the industry (as hereinbefore defined) that the Order requires amendment, or
- b. it is represented to the Minister, in accordance with provisions to be made, by those employed in the industry, or by the consumers of the products of the industry, or by any other industry or section of an industry, or by any other body or person who, in the opinion of the Minister, is, or is likely to be, affected by, or interested in, the Order, that the Order requires amendment, or
- c. the Minister, after consultation with the Committee, is of opinion that the Order requires amendment,

such amendment or amendments shall be embodied in a supplementary scheme which shall be referred to the Committee, and the provisions of paragraphs 4-12 hereof shall apply as though such supplementary scheme were an original scheme.

PART FOUR

PROVISIONS TO SECURE THE PRESENTATION OF SCHEMES IN CERTAIN CASES

14. Where the Minister, after consultation with the Committee, is satisfied that an industry (including a section of an industry) is a proper subject for a scheme of industrial reorganisation, but that no steps are being taken by the industry to prepare such a scheme, he may require such industry to prepare such a scheme and present it to him within a specified period.

15. If within the specified period such a scheme is presented to the Minister by the industry, or by persons representing a substantial portion of the industry, the provisions of Part Two hereof shall apply to such scheme.

16. If within the specified period no scheme is presented to the Minister, the Minister shall request the Committee to take steps to prepare a scheme for submission to the industry. The Committee may either prepare such a scheme itself or recommend to the Minister the establishment of a Commission for the preparation of the scheme. Such scheme when prepared shall be considered by the Council and the provisions of paragraphs 4-11 hereof shall apply.

APPENDIX II

EMPLOYMENT AND EDUCATION OF YOUNG PERSONS BILL

MEMORANDUM

THE purpose of this Bill is to empower the Government, in consultation with industry, to regulate the age at which children shall leave school for particular employments and the further education or technical training which they shall receive during their early years in employment. For this purpose, section 1 provides that the school leaving age may be raised by Order in Council to the point necessary, from time to time, to adjust the flow of juvenile labour from the schools to the capacity of the labour market, provided that, for the next two years, the school leaving age shall not be raised by more than one term a year; while section 2 gives the Minister of Labour power still further to adjust the flow in detail, either by individual exemptions or by general exemptions affecting a particular industry. In either case, the exemption certificate may require the attendance of the holder at continuation schools or courses of technical instruction; and sub-section (3) of this section contemplates the working out of codes of juvenile employment by representative bodies for different industries. Section 3 provides for the local administration of these powers through Vocational Guidance Authorities, which shall be generally identical with the Juvenile Employment Committees.

A BILL TO

REGULATE THE ENTRY OF YOUNG PERSONS INTO EMPLOY-
MENT ON LEAVING SCHOOL AND TO PROVIDE FOR
THEIR FURTHER EDUCATION

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

Provision of
instruction for
children over
twelve.

1.—(1) The duty imposed on a parent by the Education Act, 1921, to cause his child to receive efficient elementary instruction shall be deemed to include the duty to cause a child over the age of twelve years to receive such instruction appropriate to his age as may be available to him in the locality where the parent resides (but without prejudice to the parent's right to choose for his child a school provided by the religious denomination to which he belongs), and the duties of local education authorities under the same Act shall be deemed to include the duty to provide such instruction.

(2) The age up to which it shall be the duty of local education authorities to provide, and the duty of a parent to cause his child to receive, such instruction shall be such age as may from time to time be fixed by Order in Council for the purpose of preventing unemployment among juveniles, provided that—

- i. the age shall at no time be lower than that provided by sections forty-eight and one hundred and

thirty-eight of the Education Act, 1921, nor higher than sixteen years; and

- ii. for the first period specified in sub-section (3) of this section, the age shall not be higher than the end of the first complete term after the child shall have attained the age of fourteen years, and for the second period so specified it shall not be higher than the second complete term after the child shall have attained the age of fourteen years.

(3) The first period mentioned in the preceding sub-section shall be from the first day of April, 1935, to the thirty-first day of March, 1936, and the second period from the first day of April, 1936, to the thirty-first day of March, 1937.

(4) Notwithstanding anything to the contrary in the Education Act, 1921, an Order in Council fixing an age higher than that provided in sections forty-eight and one hundred and thirty-eight of the Education Act, 1921, may empower the Board of Education to make such grants to any public elementary school as may, in the opinion of the Board, be necessary to ensure the provision of satisfactory accommodation for the increased attendance at such school entailed by the Order in Council.

2.—(1) The Minister of Labour may grant an employment certificate to any child over the age of fourteen years whose parent applies for such a certificate to the Local Vocational Guidance Authority and shows to the satisfaction of that Authority that the child has been offered suitable employment, and as from the date of such certificate the duty of the parent to cause the child to receive instruction shall cease, except to the extent provided in sub-section (2) of this section.

Grant
employ
certific

(2) The Minister of Labour, with the consent of the Board of Education, may attach to any certificate granted under this section conditions as to the nature of the employment and hours of work and as to the further education, instruction and vocational training of the holder of the certificate during any period until he attains the age of eighteen years, and the holder and his parent shall have the same duties in respect of any conditions requiring his attendance at courses of instruction as they would have in respect of attendance at continuation schools under the provisions of the Education Act, 1921.

(3) The Minister of Labour, after consultation with the representatives of any particular trade or industry, may make general regulations as to the age at which employment certificates may be issued for employment in that trade or industry and as to the conditions to be attached thereto.

(4) The Minister of Labour, with the consent of the Board of Education, may make regulations as to the employment outside school hours of children over the age of twelve years, and such regulations shall supersede any bye-laws made by any local education authority which may be inconsistent with them.

Assistance of
Local
Vocational
Guidance
Authority.

3.—The local authority responsible for giving assistance to persons under the age of eighteen with respect to the choice of suitable employment under any scheme approved in accordance with the provisions of section six of the Unemployment Insurance Act, 1923, shall be the Local Vocational Guidance Authority, and, where no such scheme is in force, the Local Vocational Guidance

Authority shall be appointed jointly by the Minister of Labour and the Board of Education.

4.—(1) This Act may be cited as The Employment and Education of Young Persons Act, 1935. Short Title
and extent.

(2) This Act shall not apply to Scotland.

